

Once the items were categorized, the Bureau extrapolated the errors found over the population. PricewaterhouseCoopers obtained, from BST, a summary of the Bureau's categorization as well as BST's assessment of how the items should be categorized. The following table summarizes the final Bureau and BST positions:

Bureau 7/27/98 View						BST 8/26/98 View				
Category	Rating Cat	Line Items	% Items	Value	% Value	Rating Cat	Line Items	% Items	Value	% Value
						1	981	85.16%	\$13,986,331	90.42%
						2	60	5.21%	\$827,075	5.35%
						4	10	0.87%	\$175,902	1.14%
Assets Found	1	937	81.34%	\$13,337,871	86.23%		1,051	91.23%	14,989,308	96.90%
Assets Partially Found	3	20	1.74%			4	4	0.35%		
Found portion				\$209,414	1.35%				\$27,924	0.18%
Missing portion				\$135,663	0.88%				\$14,275	0.09%
No Assets Found	3	96	8.33%	\$257,170	1.66%	3	84	7.29%	\$205,231	1.33%
Total Missing		116	10.07%	\$392,833	2.54%		88	7.64%	\$219,506	1.42%
Unverifiable Assets	2 + 4	99	8.59%	\$1,527,928	9.88%	4	13	1.13%	\$231,308	1.50%
Total In Error		215	18.66%				171	14.84%		
TOTAL		1,152	100.00%	\$15,468,046	100.00%		1,152	100.00%	\$15,468,046	100.00%

Based on this information, we determined that we would take a two-pronged approach in testing these results. First, we focused on items classified as NAF and tested the sufficiency of the supporting documentation for the acquisition of the asset. Next, we selected central office sites and replicated the testing performed by the Bureau. The following is a summary of the results of our testing:

Bureau Category	Total in Bureau Sample		Total Disputed		Total Tested by PwC		Total Verified by PwC		
	\$	Qty	\$	Qty	\$	Qty	\$	%	Qty
AF	\$13,337,871	937	\$ -	-	\$ -	-	\$ -	-	-
APF*	\$ 345,077	20	\$ 302,878	16	\$ 124,126	2	\$ 124,126	100	2
NAF **	\$ 257,170	96	\$ 51,939	12	\$ 82,385	22	\$ 82,090	99	21
UA *	\$ 1,527,928	99	\$1,296,620	86	\$1,070,259	15	\$1,068,740	99	14
Total	\$15,468,046	1,152	\$1,651,437	114	\$1,276,770	39	\$1,274,956	99	37

* For a detailed description of the testing performed on the items selected in our site visits, see the section entitled Site Visits.

** For a detailed description of the testing performed on the items in the NAF category, see the following section.

The first phase of our testing involved the items in the NAF category. For these items, we selected certain items and asked the Company to provide detailed information to substantiate the cost and capitalization of the items on the CPR. For the items classified as NAF, both the Company and the Bureau had agreed that approximately 84 items, with a material cost of \$91,970 and an in-place cost of \$205,229, were missing.

Under the accounting prescribed by Part 32, an impact on rates would occur only when entries were inappropriately recorded on the books when assets were not acquired and placed in service. The risk for assets not found does not reside in the timing of the retirement, but rather in the legitimacy of the accounting entry. The timing of a retirement has no impact on net investment because, when an asset is retired, identical entries are made to both plant in service and accumulated depreciation. The impact on net plant in service, which is used to set rates under rate regulation and sharing plans, is zero.

In its extrapolation of the error for items not found, the Bureau used a gross plant in service amount rather than a net amount. This would indicate that some question existed regarding the documentation for the acquisition of the assets recorded on the CPR. Therefore, for the 84 items to which both parties agreed, we judgementally selected a sample of items and requested supporting documentation (i.e. invoices, telephone equipment orders, etc.) to determine the appropriateness of the cost support documentation and subsequent capitalization in the CPR.

The Company's policy requires that supporting documentation (e.g., vendor invoices, authorization, etc) should be for a ten-year period (i.e., placed in service after 1987) under Section 11.a, Form PSC/AFA/17 dated May 1993. The FCC record retention guidelines found in 47 CFR 42 do not contain detail requirements. Rather, 47 CFR 42.4 provides for the companies to maintain an index of records and their associated retention period as determined by the Company. Therefore, our sampling procedures were affected by the Company's policy of record retention, limiting our selection to items falling within the current ten-year period. Approximately fourteen items with an in-place cost of \$109,075 were placed into service prior to 1988 (i.e., outside the retention period). Therefore, we could not select the most significant dollar items not found as most of those items were acquired outside the retention period. Instead, we chose items with the largest dollar amount, which were acquired within the retention period.

The sample consisted of 22 items with an in-place cost of \$82,385. Of the 22 items, the Company provided original invoices for 17 of the items with an in-place cost of \$49,547. Two items, with an in-place cost of \$3,578 had been transferred between offices and the supporting documentation for those transfers was supplied by the Company. The Company obtained documentation provided from the vendor (to include such items as floor plan drawings, order shipment acknowledgements, etc.) for two of the items which totalled \$28,693. No supporting documentation could be found for one item with an in-place cost of \$567.

Site Visits

We judgementally selected four locations to perform site visits: Miami, Florida (Silver Oaks); Laurel, Mississippi (Main); Memphis, Tennessee (Oakville); Boaz, Alabama (Main Street). These sites were selected based on two criteria: a) the number of disputed items by BST and b) the dollar amounts of the items in dispute.

1. Miami, FL (Silver Oaks)

For the Miami - Silver Oaks location, the Company disputed the following items:

Item Number	Description	Material Cost	In-Place Cost	Bureau Categorization	BST Categorization	PwC Categorization
33	Connector Block	\$30,807	\$153,733	UA	AF	AF
35	LT Wave Bay	\$12,140	\$26,379	UA	AF	AF

Item 33

This item represented a set of 25 connector blocks. We understand the Bureau located these items in a different bay location than what was indicated in the CPR. BST corrected the frame identification (frame id) to match the correct bay location in the office subsequent to the Bureau verification. We performed the following procedures on this item:

- Counted the connector blocks, noting there are currently 27 connector blocks
- Compared the part numbers on the CPR with the part number on the connector blocks, noting agreement
- Obtained the May 19, 1999, CPR print out noting the quantities and frame id location had been corrected to accurately reflect 27 connector blocks in the correct bay locations

Item 35

This item represented a light-wave bay unit. We understand the Bureau located this item in a different bay location than that indicated in the CPR. BST subsequently corrected the frame id on the CPR to match the bay location in the office. We performed the following procedures on this item:

- Physically observed the item in bay location 110.11
- Compared the bay location on the July 27, 1997 CPR print out to the location where the equipment was observed, noting they did not agree
- Compared the part numbers on the CPR with the part number on the unit, noting agreement
- Obtained the May 19, 1999, CPR print out noting the frame id had been corrected to accurately reflect the appropriate bay location

2. Laurel, MS (Main)

For the Laurel - Main location, the Company disputed the following items:

Item Number	Description	Material Cost	In-Place Cost	Bureau Categorization	BST Categorization	PwC Categorization
6	Digital Line Trunk Unit	\$2,366	\$11,393	UA	AF	AF
7	MDF-ESS	\$21,834	\$37,682	UA	AF	AF
29	Processor Sys. Cabinet	\$205,809	\$342,128	UA	AF	AF
10	DVACs Frame Blocks	\$2,262	\$4,585	UA	AF	AF
35	Converter Plant	\$428	\$1,521	UA	AF	UA

Item 6

This item represented one digital line trunking unit. We understand the Bureau located this item in a different bay location than what was indicated in the CPR. BST corrected the frame id on the CPR subsequent to the Bureau verification. We performed the following procedures on this item:

- Compared the part number on the CPR with the part number on the trunking unit, noting agreement
- Compared the bay location on the 1997 CPR print out to the location where the equipment was observed, noting they did not agree
- Obtained the May 21, 1999, CPR print out noting the location had been corrected to accurately reflect the bay location
- Obtained the original invoice noting the purchase of this equipment at the material cost noted above was placed in the corrected frame id

Item 7

This item represented several sets of COSMIC Frame modules. We performed the following procedures on this item:

- Counted all the modules, noting there are currently seven modules in various bay locations [COSDF-21 (3 units), COSDF-22 (3 units), COSDF-24 (1unit)], although the CPR showed a quantity of 0
- Compared the bay location on the July 1997 CPR to the locations where the equipment was observed, noting they did not agree
- Attempted to compare the part number on the CPR with the part number on the modules, but were unable to locate the part number on the equipment; however, the aisles were labelled as COSMIC Frames
- Obtained the bill for the purchase of the equipment and compared the part number on the bill to the Equipment Description number on the equipment, noting agreement
- Compared the investment amount purchased in the CPR to the amount billed from the vendor, noting agreement

Item 29

This item represented one switch processor. We performed the following procedures on this item:

- Counted the frames, noting one frame and one back-up (which is appropriately reflected in the CPR as a quantity of one)
- Compared the bay location on the July 1997 CPR to the bay location in which the equipment was located, noting agreement
- Attempted to compare the part number on the CPR with the part number on the frame, but were unable to locate the part number on the equipment
- Obtained the vendor drawings for this part number (which displayed this part number detailed for multiple parts for the installed equipment) and compared those detailed part numbers to those stamped on the equipment in the frames, noting agreement
- Reconciled, to within an immaterial amount (\$88), the investment on the original invoice to the investment recorded in the CPR

Item 10

The item selected in the Bureau's original sample represented a set of 12 connector blocks from 1989. We noted that the Company does not have any means to determine the vintage and sub-location within the frame of individual connector blocks placed into service. Therefore, the Company's procedure surrounding these items is to count all of the connectors of a similar type in the office to verify the aggregate count of blocks. We performed the following procedures on this item:

- Counted the DVACS connector blocks, noting there are currently 358 connector blocks
- Compared the part numbers on the CPR with the part numbers on the connector blocks, noting agreement
- Obtained the May 21, 1999, CPR print out noting the CPR quantity accurately reflected 358 connector blocks
- Obtained the transaction which added seven connector blocks to the CPR subsequent to the FCC review

Item 35

This item represented one type of power converter plant installed in 1995. We performed the following procedures on this item:

- Counted one converter, noting only one 24V-to-48V converter in the office
- Compared the part numbers on the CPR with the part number on the converter, noting they did not agree
- Compared the bay location on the CPR to the bay location in which the equipment was held, noting they did not agree

- Reviewed the CPR for this location to determine how many of these converters should be present in the central office, we noted a quantity of one on the CPR
- We reviewed the vendor's floor plan drawings and invoice, which indicate that this type of equipment was installed in the bay line-up where found and at the price appearing on the CPR
- Based on the procedures performed, it appears that the item exists; however, the Company should correct the CPR to reflect the proper investment and bay location; therefore, we have rated this item as unverifiable, UA

3. Memphis, TN (Oakville)

For the Memphis - Oakville location, the Company disputed the following items:

Item Number	Description	Material Cost	In-Place Cost	Bureau Categorization	BST Categorization	PwC Categorization
34	Battery Plant	\$2,253	\$10,606	NAF	AF	AF
15	Mega Frame Assembly	\$6,500	\$25,578	UA	AF	AF
24	DMS CPEI Frame	\$7,490	\$51,762	UA	AF	AF
35	Rectifier Large	\$63,729	\$299,985	UA	AF	AF
10	DVACs Frame Blocks	\$1,952	\$6,936	UA	AF	AF
11	DVACs Frame Blocks	\$389	\$1,667	UA	AF	AF
12	DVACs Frame Blocks	\$1,676	\$3,218	UA	AF	AF

Item 34

This item represents a set of eight shunts and one other item of equipment. We performed the following procedures on this item:

- Counted the shunts, noting there are currently 12 shunts in two different bay locations (00100 & 00102)
- Compared the bay location on the July 1997 CPR to the location where the equipment was physically observed, noting they did not agree
- Attempted to compare the part numbers on the CPR with the part number stamped on the shunts; however, due to the attachment of the equipment to the frame, visual verification could not be made
- Compared part number and material cost on the original invoice for this equipment to the part number and material cost originally input into the CPR, noting agreement

Item 15

This item represented one frame assembly. We understand the Bureau located this item in a different bay location than what was indicated in the CPR. BST corrected the bay location on the CPR subsequent to the Bureau verification. We performed the following procedures on this item:

- Counted all the frame assemblies of this type, noting there is currently only one frame assembly in bay 002.04
- Compared the bay location in the July 1997 CPR to the locations where the equipment was physically observed, noting they did not agree
- Compared the part numbers on the CPR with the part number on the frame assembly, noting agreement
- Obtained the May 18, 1999, CPR print out noting the frame id had been corrected to accurately reflect the correct bay location

Item 24

This item represented one DMS ISDN bay. We performed the following procedures on this item:

- Counted all the DTEI bays, noting there is currently only one DMS ISDN frame assembly in bay location DTEI-N000
- Compared the bay location in the CPR to the location where the equipment was physically observed, noting they did not agree
- Compared the part numbers on the CPR with the part number on the frame assembly, noting part number NT6X01AB

Item 35

This item represented eight 48V rectifiers. We performed the following procedures on this item:

- Counted all the 48V rectifiers, noting there are currently eight 48V rectifiers in the office
- Compared the bay location in the CPR to the location where the equipment was physically observed, noting agreement
- Attempted to compare the part numbers on the CPR with the part number on the rectifier; however we could not verify the part number on the equipment
- Compared the part number on the CPR to the original invoice, noting agreement

Items 10, 11, and 12

The items selected in the Bureau's original sample represented three sets of connector blocks representing a quantity of 21, 2 and 8, respectively, and vintages of 1996, 1981 and 1985, respectively. We understand that the Bureau did not perform a full count of these items in the central office, when they performed their

procedures. We noted that the Company does not have any means to determine the vintage and sub-location within the frame of individual connector blocks placed into service. Therefore, the Company's procedure surrounding these items is to count all of the connectors of a similar type in the office to verify the aggregate count of blocks. We performed the following procedures on this item:

- Counted all the DVACS connector blocks in this office, noting there are currently 1,176 connector blocks
- Compared the part numbers on the CPR with the part numbers on the connector blocks, noting agreement
- Obtained the May 19, 1999, CPR print out noting the CPR reflected 1,074 connector blocks
- Subsequent to the May 1999 review a combination of the 1999 purchase of 27 blocks and quantity corrections of 71 blocks (this change did not impact the investment dollars recorded in the CPR) from an pending inventory result in the current total of 1,172 (per September 20, 1999 DCPR reports)
- Based on the procedures performed, it appears that sufficient quantities exist to support the quantities contained in the CPR

4. Boaz, AL (Main)

For the Boaz - Main location, the Company disputed the following items:

Item Number	Description	Material Cost	In-Place Cost	Bureau Categorization	BST Categorization	PwC Categorization
29	Switching Module	\$67,273	\$102,471	UA	UA	AF
34	Battery Plant	\$618	\$1,221	UA	AF	AF
28	Switching Module	\$66,226	\$100,875	APF	AF	AF
30	DDM Shelf Assembly	\$2,559	\$23,251	APF	AF	AF

Item 29

The item selected by the Bureau represented two switching modules. The Company indicated that only one item module was purchased and the error in the CPR was strictly a quantity error. The Company believes that the amount of investment associated with this record is correct. We performed the following procedures on this piece of equipment:

- Physically observed only one switching module, noting the bay location on the CPR agreed to the bay location where the equipment was observed
- Compared part number on the CPR with the part number on the switching module, noting agreement
- Obtained the summary of materials detail for this item noting that only one piece of equipment costing \$67,273 was purchased for this location

Item 34

This item represented one type of battery plant installed in 1987. We performed the following procedures on this piece of equipment:

- Physically observed the power equipment, noting the bay location on the CPR agreed to the bay location where the equipment was observed
- Compared part number on the original CPR (017145) with the part number on the power equipment (J86470AD-1), noting they did not agree
- Obtained the "power roll-up" mapping documentation, which displayed how the former CPR number (017145) had been converted in the CPR to the new CPR number (P67001), which was listed on the CPR at July 31, 1997
- Obtained the floor plan drawing for the equipment originally placed in the bay location indicated in the CPR noting it as J86470AD-1

Item 28

The item selected by the Bureau represented two switching modules. The Company indicated that only one item module was purchased and the error in the CPR was strictly a quantity error. The Company believes that the amount of investment associated with this record is correct. We performed the following procedures on this piece of equipment:

- Physically observed the switching module, noting the bay location on the CPR agreed to the bay location where the equipment was observed
- Compared part number on the CPR with the part number on the switching module, noting agreement
- Obtained the summary of materials detail for these items noting that only one piece of equipment costing \$66,226 was purchased for this location

Item 30

The item selected by the Bureau represented two shelf assemblies. The Company indicated that only one item assembly was purchased and the error in the CPR was strictly a quantity error. The Company believes that the amount of investment associated with this record is correct. We performed the following procedures on this piece of equipment:

- Physically observed the shelf assembly, noting the bay location on the CPR agreed to the bay location where the equipment was observed
- Compared part number on the CPR with the part number on the shelf assembly, noting agreement
- Obtained the telephone equipment order for this piece of equipment, noting that only one shelf assembly was ordered
- Obtained the vendor drawing noting that the drawing indicates that only one shelf assembly was installed

Conclusions

Based on our testing of the items in the NAF category, we did not discover any evidence of the Company inappropriately recording assets which were not acquired. For those items we requested that were inside the Company's retention period, supporting documentation was provided for approximately 99 percent of the investment balance. Based on our testing of these items, it appears that the Company could substantiate the original purchase of these items. Therefore, the adjustment for the NAF items should take accumulated depreciation into account. It also appears that the Company should have and did record an adjustment to retire all 84 of the items not found and no additional adjustment for these items is deemed necessary.

Based on the procedures performed, as noted above, it appears that Bureau did not perform adequate procedures to properly evaluate the items being tested in their sample. Proper evaluation of these items involves both site visits to the central office to perform inventory counts, subsequent alternative procedures (i.e., review of certain other items of documentation) to reconcile items to the CPR, and potentially additional visits to the central office. Based on our procedures, it appears that the Company has recorded all adjustments deemed necessary as a result of the CPR audit conducted by the Bureau.

Very truly yours,

The signature is written in a cursive, handwritten style. It reads "PricewaterhouseCoopers" in a single line, with the letters connected in a fluid script.

Cc: Ernest Bush, Assistant Vice President Federal Regulatory

EXAMPLE SHOWING IMPACT OF FAILURE TO RETIRE AN ASSET

SCENARIO 1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
YEAR	Jan. 1 ADDITIONS	Dec. 31 RETIREMENTS	EOY INVESTMENT	AVERAGE INVESTMENT	DEPR. RATE	DEPR. EXPENSE	EOY RESERVE	AVERAGE RESERVE	EOY NET BOOK COST	AVERAGE NET BOOK COST	RETURN & TAXES @ 11.25%	REVENUE REQUIRE- MENTS
						(5) x (6)	Cumulative (7)-(3)	(CY(8)+(3)+PY(8))/2	(4) - (8)	(5) - (9)	(11) x .1125 x 1.65	(7) + (12)
1	1,000		1,000	1,000	0.20	200	200	100	800	900	167	367
2			1,000	1,000	0.20	200	400	300	600	700	130	330
3	1,000		2,000	2,000	0.20	400	800	600	1,200	1,400	260	660
4			2,000	2,000	0.20	400	1,200	1,000	800	1,000	186	586
5	1,000	1,000	2,000	3,000	0.20	600	800	1,500	1,200	1,500	278	878
6		1,000	1,000	2,000	0.20	400	200	1,000	800	1,000	186	586
7			1,000	1,000	0.40	400	600	400	400	600	111	511
8			1,000	1,000	0.20	200	800	700	200	300	56	256
9			1,000	1,000	0.20	200	1,000	900	0	100	19	219
10		1,000	0	1,000	0.00	0	0	1,000	0	0	0	0
TOTALS						3,000					1,393	4,393

ASSUMPTIONS FOR SCENARIO 1:

1. DEPRECIATION RATE = $(1 - \% \text{ RESERVE} \pm \text{ NET SAVAGE}) / \text{COMPOSITE REMAINING LIFE OF VINTAGE INVESTMENTS}$
2. AVERAGE SERVICE LIFE = 5 YEARS
3. NET SALVAGE = 0
4. ALL ADDITIONS TO PLANT OCCUR ON JANUARY 1 OF RESPECTIVE YEARS AND RETIREMENTS ON DECEMBER 31
5. VINTAGE 1 ADDITIONS RETIRE AFTER 5 YEARS, VINTAGE 3 RETIRES AFTER 4 YEARS, AND VINTAGE 5 RETIRES AFTER 6 YEARS
6. NOI EXPANSION FACTOR = 1.65

SCENARIO 2

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
YEAR	Jan. 1 ADDITIONS	Dec. 31 RETIREMENTS	EOY INVESTMENT	AVERAGE INVESTMENT	DEPR. RATE	DEPR. EXPENSE	EOY RESERVE	AVERAGE RESERVE	EOY NET BOOK COST	AVERAGE NET BOOK COST	RETURN & TAXES @ 11.25%	REVENUE REQUIRE- MENTS
						(5) x (6)	Cumulative (7)-(3)	(CY(8)+(3)+PY(8))/2	(4) - (8)	(5) - (9)	(11) x .1125 x 1.65	(7) + (12)
1	1,000		1,000	1,000	0.20	200	200	100	800	900	167	367
2			1,000	1,000	0.20	200	400	300	600	700	130	330
3	1,000		2,000	2,000	0.20	400	800	600	1,200	1,400	260	660
4			2,000	2,000	0.20	400	1,200	1,000	800	1,000	186	586
5	1,000	1,000	2,000	3,000	0.20	600	800	1,500	1,200	1,500	278	878
6			2,000	2,000	0.20	400	1,200	1,000	800	1,000	186	586
7			2,000	2,000	0.20	400	1,600	1,400	400	600	111	511
8			2,000	2,000	0.10	200	1,800	1,700	200	300	56	256
9			2,000	2,000	0.10	200	2,000	1,900	0	100	19	219
10		1,000	1,000	2,000	0.00	0	1,000	2,000	0	0	0	0
TOTALS						3,000					1,393	4,393

ASSUMPTIONS FOR SCENARIO 2

SAME ASSUMPTIONS AS FOR SCENARIO 1 EXCEPT THAT UNDER THIS SCENARIO THERE WAS A FAILURE TO RECORD THE RETIREMENT ENTRY FOR VINTAGE 3 IN YEAR 6



FCC CPR Notice of Inquiry Adopted 4/6/99
BellSouth Telecommunications, Inc.
Issue 10, item (4) attachment
State PSC Reporting

State	PSC Surveillance Report Required		PSC Form M Required		Company Based Depreciation Rates		Part 32 Rules Required
Alabama	Y		Y		Y		Y
Florida	N		N		Y		N
Georgia	N		Y		Y		Y
Kentucky	Y		Y		Y		Y
Louisiana	Y		N		Y		Y
Mississippi	Y		Y		Y		Y
North Carolina	Y		Y		Y		Y
South Carolina	Y		Y		Y		Y
Tennessee	Y		Y		Y		Y